Request for Proposals
To Provide Reliability Peaking Generation
For The
California Consumer Power and Conservation Financing Authority

February 28, 2003

The California Consumer Power and Conservation Financing Authority (the "Authority") is hereby soliciting proposals in response to this Request For Proposals ("RFP") for new peaking generation, as defined herein, on a **fixed turnkey price** basis for development, design, construction and start-up of the project and placing it into commercial operation. Respondents are required to also submit proposals, on a fixed fee basis, for operation, maintenance and fuel management services associated with each proposed project. Responses to this RFP must be received in writing at the address below no later than 3:00 PM (PDT) on April 23, 2003. Responses to the RFP must adhere to the specifications herein. Five (5) copies of the responses must be submitted to:

California Consumer Power and Conservation Financing Authority
901 P Street, Suite 142A
Sacramento, CA 95814

Attention: Mr. Thomas Flynn
Deputy Director, Energy Facilities Development
and Management

A pre-bid conference will be held on March 12, 2003, at 10:00 a.m. to clarify any questions and requirements relating to this RFP. Any additional questions concerning interpretation of this RFP shall be submitted in writing to the above address or electronically to: PeakerRFP@dgs.ca.gov

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The Authority expressly reserves the right to modify, or withdraw from, the process initiated and described herein. No rights shall be vested in any party, individual or entity by virtue of its preparation to participate in, or its participation in, such process. The Authority expressly reserves the right to modify, for any reason, the schedule and any provision contained herein. The Authority reserves to itself the selection of winning respondents, if any, in the exercise of its sole discretion. No binding commitment shall arise on the part of the Authority to any respondent under this Request for Proposals until and unless the parties sign documents of agreement that become effective in accordance with their terms. Responses to this RFP, however, shall be held firm by the Respondent for at least ninety (90) days.

1.0 OVERVIEW

The California Consumer Power and Conservation Financing Authority (the "Authority") is initiating this Request for Proposals ("RFP") in an effort to help increase the statewide reserve margin to an adequate level to ensure reliability and reduce price volatility at the peak.

In its reserves rulemaking, the Authority set a target reserve level of 17 percent. Existing statewide reserves are at 10 percent, far short of this target. Much of California's existing generation infrastructure is over 30 years old. The electrical utility industry, and specifically the merchant generation sector, are experiencing unprecedented financial weakness, loss of investor confidence, and an inability to access reasonable financing. Without greater stimulus the reserve margin shortfall is thus likely to grow worse, leaving the state with the possibility for compromised reliability, market power abuse and gaming, high electricity prices and significant price volatility. Additional reserves are needed.

1.1 Objectives

This reliability reserve peaking capacity initiative is a first step to obtain up to 300 MW of new efficient additional peaking reserves under Authority ownership and to provide power ***at cost*** for California's electricity consumers.

The Authority is seeking to accomplish this by inviting proposals that sufficiently meet either of two objectives—lowest cost or locations in reliability sensitive areas. Respondents should self-select the objective category to which they are submitting their proposal(s) or apply in both categories if appropriate. These two objective categories are described below.

1.11 *Lowest Cost ("Category 1 Proposals")*

In order to achieve the lowest possible cost for new peaking capacity, the Authority is seeking proposals for new peaking facilities at sites with existing generation infrastructure. The Authority intends to achieve this by inviting proposals from firms that have ownership or control of suitable sites with existing plants having sufficient capability (or expansion potential) to provide transmission and natural gas connections and other necessary infrastructure. For purposes of this RFP process, proposals submitted in response to this objective will be considered as Category 1 proposals.

Projects proposing to add duct firing to existing facilities will not be considered because they do not provide as much scheduling and dispatch flexibility as stand-alone peakers. The Authority will consider proposals for sites without existing plants to the extent that they are priced competitively. Projects proposing the use of used or refurbished equipment will be considered; however, the facility must comply with all applicable local and state air emission requirements. All proposals must represent new capacity—that is, projects consisting of existing generation will not be considered.

Given current economic conditions and cost of equipment, the Authority is establishing a ceiling price it will pay for the total installed cost of $500/kW. To clarify, bid prices must be at or below the ceiling price to be considered. This is calculated as the total project cost divided by the total project output.

To maximize the reliability benefit provided by these resources, they must be capable of synchronizing to the grid within 10 minutes of receiving a start signal or request from the California Independent System Operator ("Cal-ISO").

Awards in this objective category will be based on three major factors—bid price (i.e., competition within the price ceiling of $500/kW), earliest on-line date, and demonstrated capability to meet performance guarantees (i.e., availability and heat rate guarantees and guaranteed ability for the project to be operated in compliance with all applicable permits). For a more detailed discussion regarding how proposals in this category will be evaluated refer to Section 5.1.

1.12 *Locations in Reliability Sensitive Areas ("Category 2 Proposals")*

In order to ensure that new peaking capacity is added where additional peaking capacity is most needed for reliability, the Authority is seeking proposals for new peaking capacity in certain local areas identified by the California Independent System Operator ("Cal-ISO"). For purposes of this RFP process, proposals submitted in response to objective category will be considered as Category 2 proposals.

These areas are defined in Attachment A and further illustrated in Attachment B. This Cal-ISO information identifies "reliability challenged" areas across the Cal-ISO controlled grid that would most benefit from additional peaking capacity. The Cal-ISO expresses these areas of reliability need in terms of specific substations and at specific voltage levels. The Cal-ISO also ranks these substation locations according to priority and the number of hours the peakers are needed to run. Refer to Attachment A and Attachment B for more details.

In Attachment C is information from PG&E possibly modifying the need for generation at some of these sites due to planned transmission upgrades. Respondents should consider the information in all three Attachments (A, B and C) when making site selections.

To satisfy the Authority's objective for new peaking capacity where it is needed most, proposals submitted in response to this objective must include interconnection to one of the substation locations identified by the Cal-ISO in Attachment A. Proposals that do not include interconnection to one of these substation locations will not be considered.

For many of these substation locations, the Cal-ISO has identified the need for relatively small amounts of additional peaking capacity (e.g., 20 to 30 MW). These are minimums. To achieve the lowest incremental cost, respondents should give

consideration to what extent peaking capacity proposals sized at the 50 MW level and above may make more economic sense.

Projects proposing the use of used or refurbished equipment will be considered; however, the facility must comply with all applicable local and state air emission requirements. All proposals must represent new capacity—that is, projects consisting of existing generation will not be considered.

To maximize the reliability benefit provided by these resources, they must be capable of synchronizing to the grid within 10 minutes of receiving a start signal or request from the Cal-ISO.

Awards in this objective category will be based on four major factors—interconnection to one of the substation locations identified by the Cal-ISO in Attachment A, bid price, earliest on-line date, and demonstrated capability to meet performance guarantees (i.e., availability and heat rate guarantees and guaranteed ability for the project to be operated in compliance with all applicable permits). For a more detailed discussion regarding how proposals in this category will be evaluated refer to Section 5.2.

1.2 Fixed Turnkey Price

The Authority is inviting firms to submit proposals in response to this RFP on an all inclusive **fixed turnkey price** basis for all development, design, permitting, offsets acquisition, site availability, engineering, procurement, quality assurance and inspection, construction, interconnection to Cal-ISO grid, start-up, demonstration, performance testing, training of personnel, and provision of all materials and equipment, machinery, tools, labor, transportation and other services and items required to complete construction of the project and place it into commercial operation.

Category 1 proposals should be permitted to support up to 4,000 hours of operation per year. Category 2 proposals should be permitted to support at least the number of hours of operation specified for the corresponding location by the Cal-ISO in Attachment A.

The Authority reserves the right to provide the necessary equipment for these new facilities.

In Attachment D is a non-binding expected scope of work to be considered by the respondent in establishing the fixed turnkey price.

1.3 Fuel Type

Projects proposing to use natural gas will be considered. Projects proposing to use renewable-based fuels will be considered. For Category 1 projects proposing to use renewable-based fuel, if its fuel costs are lower than natural gas costs, then proposals somewhat higher than $500/kW will be considered to the extent that they reflect that advantage. Projects proposing to use diesel fuel will not be considered.

1.4 Operations, Maintenance and Fuel Management

The Authority is requiring that firms include proposals on a fixed fee basis for the operations and maintenance as well as fuel management associated with their proposed project.

These costs are to be proposed separately from the fixed turnkey price for the development and construction of the project. One possible approach is for the developer to provide these services at a fixed rate, for a five-year term, and with an Authority option to extend for subsequent terms.

The output from the project will be scheduled and dispatched to meet the reliability and peaking requirements of the investor-owned utility in whose service area the project is located and the Cal-ISO controlled grid. Fuel would be a pass-through cost to the contracting utility (see Section 1.5 below).

The Authority reserves the right to propose alternative structures for the provision of operations, maintenance, and fuel management services.

1.5 Financing

The Authority would own these projects and finance the capital cost of the projects through long-term borrowing by the Authority in the form of issuance of bonds or other debt instruments. The Authority will finance the acquisition of the project from the developer at the completion of the project. As the Authority is taking a turnkey approach to these peaker projects, the responsibility for construction financing is to be assumed by the developer.

It is the Authority's intention that the capacity provided and/or the power generated by these projects would be sold by the Authority to the investor-owned utility in whose service area the project is located under long-term contracts pursuant to the procurement process now underway. Preliminary discussions with the interested agencies support the need for these peakers if the price reflects cost-of-service based turnkey prices.

While the CPUC has not taken a formal action, CPUC President Peevey authorized the following statement on February 27, 2003, for inclusion in this RFP:

> "I am aware of the Authority's effort to install publicly-owned peaking capacity on a cost-of-service basis and in critical reliability areas. I support this effort and believe it may well be an effective way to address known reliability problems. It is also one of the more attractive ways of satisfying peaking capacity needs in general. To the extent the Authority develops cost effective proposals for this new peaking capacity, I will recommend to my colleagues that the Commission support such proposals with appropriate cost recovery and rate treatment."

It is anticipated that responses to this RFP will be reviewed by a team to include representatives of the Authority, the California Energy Commission ("CEC"), the Cal-ISO, and the California Public Utilities Commission ("CPUC").

1.6 Transfer of Ownership

Although the Authority will initially own these projects once commercially operable, the contracting investor-owned utility will be given an option to purchase each peaker from the Authority at cost upon approval of the CPUC of the terms of the sale.

1.7 Schedule

A tentative schedule for this effort is as follows:

RFP released	February 28, 2003
Pre-Bid conference	March 12, 2003
Notice of Intent to Respond due	March 19, 2003
Responses due	April 23, 2003
Preferred responses selected	May 15, 2003
Negotiation of agreements	May/June 2003
Authority Board consideration of agreements	July 11, 2003

2.0 THE AUTHORITY

The Authority was created by Chapter 10x, Statutes of 2001 (SB 6x, Burton), to assure a reliable supply of power to Californians at just and reasonable rates, including planning for a prudent energy reserve. In order to meet these goals, the Authority is authorized to purchase, lease, or build new power plants to supplement private and public sector power supplies. The financing for these projects is to be provided from the sales of revenue bonds (up to $5 billion) by the Authority, with any bonds issued being secured by the revenues generated from the specific projects being financed by the Authority.

The Authority has a financing team in place providing it with the capability to move forward when a project approaches the financing stage. This team includes a financial advisor, bond counsel, investment bankers, and independent engineers, in addition to Authority staff and management.

3.0 PROPOSAL INSTRUCTIONS

3.1 Pre-Bid Conference

To allow respondents the opportunity to clarify any questions and requirements relating to this RFP, the Authority has scheduled a pre-bid conference for 10:00 a.m. on March

12, 2003, in the First Floor Hearing Room, 901 "P" Street, Sacramento, California. Any additional information regarding the pre-bid conference will be posted on the Authority's website at http://www.CaPowerAuthority.ca.gov.

3.2 Notice of Intent to Respond

As an initial step to participate in the process, firms interested in submitting a proposal should notify the Authority on or before March 19, 2003, of their intent to submit a response to this RFP. Such notice should be provided by fax, confirmed by mail, addressed as provided in Section 3.3, below, and should include a statement of interest and brief statement of qualifications and experience. Notices of Intent to Respond will aid the Authority in gauging the quantity of proposals likely to be received, and in planning appropriate management and staffing needs, space, and time for adequate receipt and evaluation. It will also aid the Authority in notification and distribution of addenda to this RFP, if any. Submission of a Notice of Intent to Respond will not bind the firm to submit a proposal.

3.3 RFP Questions, Clarifications and Correspondence

Respondents are requested to withhold their initial questions until the pre-bid conference. If, following the pre-bid conference, respondents require additional clarification, then all such correspondence or written questions concerning this RFP should be submitted in writing by either mail, fax, or E-mail to:

California Consumer Power and Conservation Financing Authority
901 P Street, Suite 142A
Sacramento, CA 95814

Attention:	Mr. Thomas Flynn Deputy Director, Energy Facilities Development and Management
FAX:	(916) 651-9595
E-Mail:	PeakerRFP@dgs.ca.gov

Respondents are specifically advised not to contact any other entity or agent of the Authority unless expressly instructed to do so by the person named above.

3.4 No Cost Reimbursement

All costs incurred in preparing and submitting a proposal, and in supplying supplementary information, will be borne by the respondents. The Authority shall not defray any costs in connection with this process.

3.5 Proposal Submittal

Interested firms must deliver one (1) original proposal plus four (4) copies to the Authority offices no later than 3:00 P.M. on April 23, 2003. Proposals must be enclosed in a sealed envelope and addressed as follows:

California Consumer Conservation and Financing Authority
901 P Street, Suite 142A
Sacramento, California 95814

Attention: Mr. Thomas Flynn
Deputy Director, Energy Facility Development
and Management

The proposal-mailing envelope must be clearly marked as either a Category 1 or Category 2 proposal responding to Authority Request for Proposal for Reliability Peaking Generation. The envelope shall also show the name and address of the respondent. Each proposal shall give the full business address of the respondent, telephone and facsimile number, and email address. Proposals shall be printed single-sided, on 8-1/2 x 11 inch paper, and easily removable from any binding (no glued or spiral-bound documents). Each respondent is solely responsible for ensuring that its proposal is actually received by the time and date required.

Proposals received prior to the due time and date shown above will remain unopened until after the time and due date. Proposals may be withdrawn by the Respondent prior to the due time and date if a written notice of withdrawal signed by the Respondent is submitted, either by mail or facsimile to the Authority. Proposals may be changed by the respondent prior to the due time and date if a written notice of change, along with the changed pages of the proposal clearly marked to identify the pages they are replacing, is received by the Authority. Proposals may not be changed, modified, or withdrawn after the due time and date shown above. Proposals received after the due time and date shown above may be rejected.

3.6 Confidentiality

The Authority intends that its selection process under this RFP will be open and public. Respondents are advised that the California Public Records Act (the "Act," Government Code §§ 6250 et seq.) provides that any person may inspect or be provided a copy of any identifiable public record or document that is not exempted from disclosure by the express provisions of the Act.

Each respondent shall clearly identify any information within its proposal that it intends to ask the Authority to withhold as exempt under the Act. Any information contained in a respondent's submission which the respondent believes qualifies for exemption from public disclosure as "proprietary" or "confidential" must be identified as such at the time of first submission of the respondent's response to this RFP. Any failure to identify information contained in a respondent's submission to this RFP as "proprietary" or

"confidential" shall constitute a waiver of respondent's right to object to the release of such information upon request under the Act.

The Authority favors full and open disclosure of all such records. The Authority will not expend public funds defending claims for access to, inspection of, or to be provided copies of any such records. By submitting a proposal, a respondent agrees to indemnify and defend the Authority on terms stated therein against all claims or actions brought against it to seek access to, or compel disclosure of, any records or documents in the Authority's possession which were submitted to the Authority by any respondent pursuant to this RFP.

3.7 Signature Authority

Proposals shall be signed by an officer of the respondent's firm or authorized attorney-in-fact. The person(s) signing the proposal shall be legally authorized to sign proposals and contracts on behalf of his or her company. If signed by an attorney-in-fact, a properly authenticated copy of the related power of attorney shall be enclosed with the proposal. The name of each person signing the proposal shall be typed or printed below the signature. The Authority may request satisfactory evidence of the authority of the person signing on behalf of the respondent.

4.0 INFORMATION REQUIRED WITH EACH PROPOSAL

The following is a description of the minimum information that must be provided in each proposal. Respondents may wish to provide supplementary information they consider may be of assistance in the evaluation of proposals received. Failure to supply the minimum information requested may result in a rejection of the proposal.

4.1 Proposal Category

Indicate the objective category, as described in Section 1.1, the proposed project is intended to satisfy (i.e., Category 1 or Category 2).

4.2 Project Description

- Description of generating plant and ancillary facilities including, but not limited to:
    - Equipment type
    - Fuel type
    - Guaranteed capacity (MW), net at assumed average annual ambient conditions
    - Guaranteed heat rate (Btu/kWh), net

- Proposed time-to-synchronize guarantee and technical limitations such as the number of starts, number of run hours, etc.

- Description of how the facility will comply with all applicable local and state air emission requirements. Description of emissions controls that will limit NOx emissions to levels specified by respondent.

- Descriptive material regarding the proposed project site including, but not limited to:

  - Site name (if any)

  - Address (including city and/or county)

  - Size (i.e., acreage).

  - Site drawings/diagrams.

  - Proximity to electric transmission facilities sufficient to transmit plant output.

  - Description of any known transmission constraints that may limit the ability of project to deliver to the grid.

- Description of the nature of respondent's ownership or control of project site.

  - Ownership or leasehold interest.

  - If leased, describe term (in years) and to what extent the lease may be assignable to the State of California.

- For Category 1 proposals, information describing the existing generation located at the site, including a description of the sufficiency or adequacy of the necessary infrastructure (e.g., transmission and natural gas connections).

- For Category 2 proposals, information regarding project site's correlation with reliability sensitive areas including, but not limited to:

  - Proposed point of interconnection (e.g., substation name and voltage level) and distance from project site.

  - Information explaining the relative proximity of the project site to the certain locations described by the Cal-ISO in Attachment A to this RFP (distance measured in feet or miles).

4.3 Fixed Turnkey Price

All responses must include a fixed turnkey price, as defined in Section 1.2. This price should be expressed in dollars per kilowatt ($/kW). This is calculated as the total project cost divided by the total project output.

4.4 Pricing Proposals for Operations, Maintenance and Fuel Management

Bid prices on a fixed fee basis for the operations and maintenance as well as fuel management associated with the proposed project. One possible approach is for the developer to provide these services at a fixed rate, for a five-year term, and with an Authority option to extend for subsequent terms. Fuel would be a pass through cost to the investor-owned utility in whose service area the project is located.

4.5 Performance Guarantees

Description of respondent's ability to meet performance guarantees for the proposed project (i.e., availability guarantee, a heat rate guarantee, and ability for the project to be operated in compliance with all applicable permits).

4.6 Project Schedule

Description of proposed project schedule including, but not limited to, the following project milestones:

- Obtain permits—Land
- Obtain permits—Air
- Completion of Gas Interconnection Studies
- Completion of Electric Interconnection Studies
- Start of Construction
- Completion of Gas Interconnection
- Completion of Electric Interconnection
- Commercial Operation Date

4.7 Organization of Respondent Firm

- Identify key staff members for the project, including their specific responsibilities/authority, and contact information (e.g., responsible executive, project manager, other members of project team).
- Briefly described the proposed project role and experience of each person identified above.
- Identify subcontractors for the project, including their specific responsibilities.

4.8 Project Experience

List the projects that demonstrate the respondent firm's competence to develop, construct, operate and maintain power plants similar to that proposed in response to this RFP. Specifically list those projects located in California. Required information must include:

- Name, location, size (MWs) and type (e.g., peaker, combined cycle, etc) of project.
- Brief description of type and extent of services provided for each project.
- Name and address of the current owner of that project and phone contact.
- Completion date, actual or estimated.
- Identify any projects on which liquidated damages have been paid, or on which the respondent's work was terminated.

4.9 Ownership Disclosure

Provide ownership structure information concerning the proposed generating resource including, but not limited to, the following:

- Name of entity that will develop the proposed project ("Project Company")
- Names of the current or proposed owners, partners, shareholders, etc. of the Developer ("Parent Companies")
- Names of all current or proposed affiliates of the Project Company and the Parent Companies ("Affiliate Companies")
- Pending litigation involving the Project Company, Parent Companies, and/or Affiliate Companies that may affect the ability to perform.

4.10 Credit Status

Provide credit status information for both the Project Company and the Parent Companies.

5.0 PROPOSAL EVALUATION

Proposals will be evaluated based on the criteria specific to the objective category the proposal is intended to satisfy (i.e., Category 1 or Category 2).

The Authority reserves the right to reject any or all proposals, and to waive any irregularity in the proposals received. The Authority reserves the right to negotiate towards execution of a project agreements with any or all respondents at its discretion.

5.1 Category 1 Proposals

Category 1 proposals will be evaluated based on the following three factors.

5.11 *Bid Price*

(80% Weighting Factor)

For Category 1 proposals, the Authority is establishing a ceiling price it will pay on a fixed turnkey basis. The ceiling price is $500/kW. Bids above the ceiling price of $500/kW will not be considered. Awards will be based on competition within that ceiling. In order for one bid price to be differentiated from another, bid prices must differ by at least $5/kW. For example, a bid of $441/kW will not be considered lower in price, for purposes of this RFP, than a bid of $445/kW; however, a bid of $440/kW would. For qualified bids at or below the $500/kW ceiling, an 80 percent weighting factor will be applied in determining a proposal's overall score.

5.12 *Earliest On-line Date*

(Up to 20% Weighting Factor)

The Authority is seeking new peaking facilities in commercial operation by Summer 2005. In determining a proposal's score in this regard, a sliding scale of weighting factors will be applied as follows. Proposals with a scheduled on-line date occurring on or before May 15, 2005, will receive a 20 percent weighting factor. A scheduled on-line date occurring between May 16, 2005, and June 15, 2005, will receive a 15 percent weighting factor. A scheduled on-line date occurring between June 16, 2005, and July 15, 2005, will receive a 10 percent weighting factor. A scheduled on-line date occurring between July 16, 2005, and August 15, 2005, will receive a 5 percent weighting factor. Proposals with a scheduled on-line date after August 15, 2005, will not be considered.

5.13 *Demonstrated Capability to Meet Performance Guarantees*

(Pass / Fail)

The developer must have a demonstrated capability to meet performance guarantees. These could include an availability guarantee, a heat rate guarantee, and ability for the project to be operated in compliance with all applicable permits. Respondents unable to demonstrate this capability will receive no further consideration. This is a pass/fail criterion.

5.2 Category 2 Proposals

Category 2 proposals will be evaluated based on the following four factors.

5.21 *Locations in Reliability Sensitive Areas*
(Pass / Fail)

For Category 2 proposals, the Authority will only give consideration to projects proposing to interconnect directly to those substations identified by the Cal-ISO, as described in Attachment A. This is a pass/fail criterion.

5.22 *Bid Price*
(80% Weighting Factor)

Although there is no established ceiling price for Category 2 proposals, the Authority is seeking the lowest possible cost. An 80 percent weighting factor will be applied in determining a proposal's overall score.

5.23 *Earliest On-line Date*
(Up to 20% Weighting Factor)

The Authority is seeking new peaking facilities in commercial operation by Summer 2005. In determining a proposal's score in this regard, a sliding scale of weighting factors will be applied as follows. Proposals with a scheduled on-line date occurring on or before May 15, 2005, will receive a 20 percent weighting factor. A scheduled on-line date occurring between May 16, 2005, and June 15, 2005, will receive a 15 percent weighting factor. A scheduled on-line date occurring between June 16, 2005, and July 15, 2005, will receive a 10 percent weighting factor. A scheduled on-line date occurring between July 16, 2005, and August 15, 2005, will receive a 5 percent weighting factor. Proposals with a scheduled on-line date after August 15, 2005, will not be considered.

5.24 *Demonstrated Capability to Meet Performance Guarantees*
(Pass / Fail)

The developer must have a demonstrated capability to meet performance guarantees. These could include a capacity guarantee, a heat rate guarantee, a reliability guarantee, and ability for the project to be operated in compliance with all applicable permits. Respondents unable to demonstrate this capability will receive no further consideration. This is a pass/fail criterion.

SECTION 6.0
ATTACHMENTS

ATTACHMENT A
Cal-ISO Letter to the Authority Dated January 2, 2003

CALIFORNIA ISO

JAN 0 3 2003

California Independent System Operator

Armando J. Perez, P.E.
Director of Grid Planning
(916) 351-4444
151 Blue Ravine Road
Folsom, CA 95630

January 02, 2003

Mr. Kellan Fluckiger
Senior Advisor
California Power Authority
901 P Street
Sacramento, CA 95814

Subject: Identification of "Reliability Challenged" Areas Across the Cal-ISO Controlled Grid That Would Most Benefit From Additional Peaking Capacity

Dear Kellan:

The California Power Authority has requested from the California Independent System Operator (Cal-ISO) its recommendations on the locations within the Cal-ISO Controlled Grid that are in greatest need, from a reliability standpoint, of additional peaking[1] capacity. This letter sets forth the Cal-ISO's recommendations.

As you know, each year the Cal-ISO determines the Reliability Must Run requirements within the transmission grid under it's control, performs controlled grid assessments, and coordinates a transmission expansion planning process in which it reviews and approves plans proposed by each of the Participating Transmission Owners (PTOs). While the Cal-ISO continuously works with the PTOs through these processes to address all reliability concerns, additional peaking capacity would be helpful to address a number of existing or on-going grid reliability issues. Our recommendations below focus on locations in which there are problems 1) for which a final solution has not yet been identified by the PTOs, or 2) for which the transmission solutions that have been proposed to date could be infeasible or very costly because of environmental considerations. Moreover, our recommendations address the needs in 2003 primarily, they do not set forth the peaking capacity needs in years beyond 2003 which could increase in the locations listed below if there is load growth.

Determining the locations where additional peaking capacity is most needed is a somewhat complex undertaking that is entirely dependent on the specific "reliability challenge" being addressed, such as whether the reliability need arises from equipment protection requirements, system performance problems, or the desire to reduce exposure to firm load shedding. The reliability needs within the locations listed below are all based on the expected occurrence of a single contingency (per Cal-ISO standards they are: transformer, line, generator or line+generator outages). In our recommendation the first two sections have a higher priority. Within each section, the areas are sorted based on the number of hours the peakers need to run.

[1] All new units have to satisfy Cal-ISO requirements regarding new generation additions to the grid.

Non-radial areas where additional peaking capacity could prevent low voltages or equipment overload for single contingencies:

Mendocino 60 kV area in Mendocino County could benefit from the addition of between 50-100 MW of peaking capacity. To meet the reliability need, two or more units, rather than a single unit, are required. A minimum of 25 MW of generation has to remain on-line after the loss of the biggest peaking generator proposed in this area. The units should be able to run approximately 5000 hours/year combined and approximately 2000 hours/year simultaneously. The following substations could accommodate some[2] generation: Mendocino (100 MW), Willits and Fort Bragg (50 MW), Laytonville, Potter Valley, Masonite Meter Station (30 MW).

Middletown 60 kV substation in Lake County could benefit from the addition of between 10-30 MW of peaking capacity. The unit(s) should be able to run approximately 4000 hours/year.

Paso Robles-San Miguel 70 kV in San Luis Obispo County area could benefit from the addition of between 15-40 MW of peaking capacity. To meet the reliability need, two or more units, rather than a single unit, are required. A minimum of 15 MW of generation has to remain on-line after the loss of the biggest peaking generator proposed in this area. The units should be able to run approximately 4000 hours/year combined. Paso Robles substation is preferred over San Miguel.

Salado 60 kV area in Stanislaus and Merced Counties could benefit from the addition of 10-30 MW of peaking capacity. The unit(s) should be able to run approximately 1500 hours/year. Either of the following substations can accommodate this unit: Gustine, Newman.

Atlantic 60 kV area in Placer County could benefit from the addition of at least 25 MW of peaking capacity. The unit(s) is needed during summer peak time only. Any one of the following substations could accommodate this unit: Lincoln, Pleasant Grove, Atlantic, Rocklin, Del Mar.

Davis 115 kV substation in Yolo County could benefit from the addition of at least 20 MW of peaking capacity. To meet the reliability need, two or more units, rather than a single unit, are required. A minimum of 10 MW of generation has to remain on-line after the loss of the biggest peaking generator proposed in this area. The units are needed during summer peak time only.

Mesa 115 kV area in Santa Barbara County may benefit from the addition of at least 50 MW of peaking capacity – real time data confirmation is needed. The unit should be able to run approximately 1500 hours/year. Any one of the following substations could accommodate this unit: Mesa, Santa Maria, Sisquoc, Santa Ynez, Buellton, Divide.

Non-radial areas where additional peaking capacity could maintain system reliability for single contingencies due to plant retirement and/or environmental constraints:

San Francisco region in San Francisco and San Mateo Counties would benefit from the addition of a minimum of 150MW of peaking capacity in the event that the Hunters Point unit #4 is retired early (additional capacity may be needed subsequent to 2003; the Cal-ISO is evaluating how much). The unit(s) should be able

[2] Certain restrictions may apply based on the combination of the two units.

to run year round combined and about 1000 hour/year simultaneously. Future studies are needed to determine the best location for the units.

Non-radial areas where additional peaking capacity could prevent load-shedding schemes from dropping load for single contingencies:

Arco 70 kV area in Kern and Kings Counties could benefit from the addition of at least 50 MW of additional peaking capacity. The unit(s) should be able to run year round combined. The preferred substation is Arco (up to 100 MW). Other substations in the area could accommodate some[3] smaller amount of generation (25-50 each).

Ignacio 60 kV area in Marin County could benefit from the addition of at least 70 MW of peaking capacity. The unit(s) should be able to run approximately 5000 hours/year combined and about 1000 hour/year simultaneously (if two or multiple units). The following substations could accommodate some[3] generation: Ignacio and Alto (100 MW), Novato (80 MW), Greenbrae (50 MW) and Stafford (50 MW), Bolinas (30 MW).

Watsonville 60 kV substation in Santa Cruz County could benefit from the addition of 10-40 MW of peaking capacity. To meet the reliability need, two or more units, rather than a single unit, are required. A minimum of 10 MW of generation has to remain on-line after the loss of the biggest peaking generator proposed in this area. The units should be able to run approximately 5000 hours/year combined.

Sonoma-Pueblo 115 kV area in Sonoma and Napa Counties could benefit from the addition of 50-100 MW of peaking capacity. To meet the reliability need, two or more units, rather than a single unit, are required. A minimum of 40 MW of generation has to remain on-line after the loss of the biggest peaking generator proposed in this area. The units should be able to run approximately 4000 hours/year combined. Each substation (Sonoma or Pueblo 115 kV) could accommodate this generation.

Stagg 60 kV area in San Joaquin County could benefit from the addition of at least 25 MW of peaking capacity. The unit(s) is needed during summer peak time only. Any one of the following substations could accommodate this unit: Stagg, Country Club, Mosher, however Hammer is preferred.

If you have any questions please do not hesitate to call me at (916) 351-4444 or Catalin Micsa at (916)-608-5704.

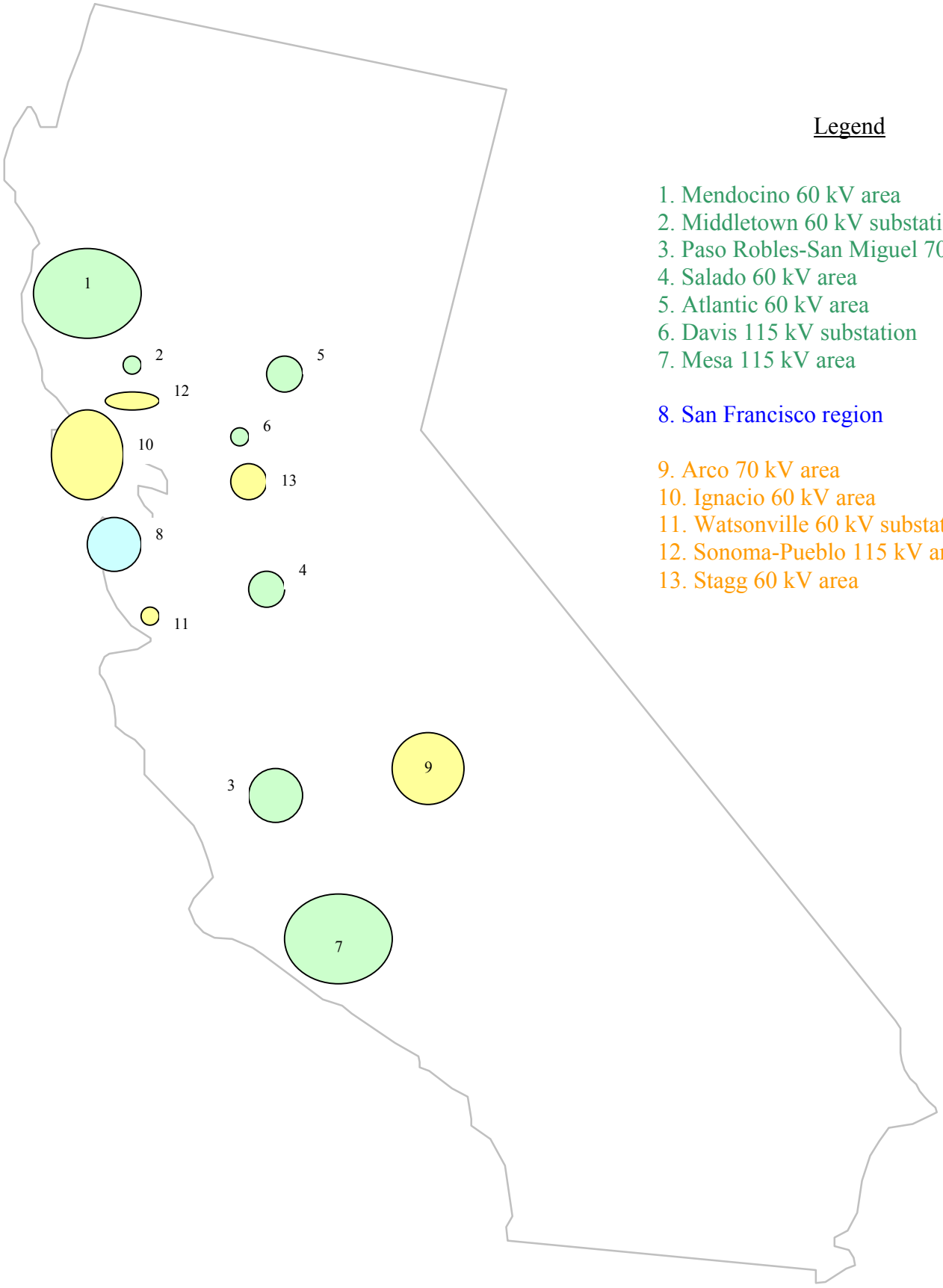
Sincerely,

Armando Perez
Director of Grid Planning

[3] Certain restrictions may apply based on the combination of the two units.

ATTACHMENT B
Map Attachment

Map Attachment for the January 2 letter to the CPA - Subject: Identification of "Reliability Challenged" Areas Across the Cal-ISO Controlled Grid That Would Most Benefit From Additional Peaking Capacity.



Legend

1. Mendocino 60 kV area
2. Middletown 60 kV substation
3. Paso Robles-San Miguel 70 kV area
4. Salado 60 kV area
5. Atlantic 60 kV area
6. Davis 115 kV substation
7. Mesa 115 kV area

8. San Francisco region

9. Arco 70 kV area
10. Ignacio 60 kV area
11. Watsonville 60 kV substation
12. Sonoma-Pueblo 115 kV area
13. Stagg 60 kV area

ATTACHMENT C
PG&E Information

Planned Transmission Projects

The following table was produced by PG&E and provided to the Cal-ISO. The Cal-ISO, in turn, provided it to the Authority for inclusion in its RFP. This table states the reliability problem (contingency and possible criteria violation) as well as PG&E's initial thoughts on addressing the reliability problems in these areas. The Authority has included this table for informational purposes.

No.	Area	Contingency	Problem	Project	Project Status	Comment
1	Mendocino 60 kV Area	Mendocino 115/60 kV transformer and various 115 kV and 60 kV line outage	Low voltages and thermal overloads	Install 2nd Mendocino 115/60 kV transformers, 115 kV shunt capacitors and line reconfiguration/re-rates	Shunt capacitor and line reconfiguration/rerates May 2004. Transformer bank 2006. This project has not been submitted for ISO approval, yet.	Part of the Eagle Rock and Mendocino Long Term Study
2	Middletown 60 kV Substation	Eagle Rock 115/60 kV transformer outage	Low voltage	Load transfer scheme to pick up load following an Eagle Rock Transformer outage.	TBD. This project has not been submitted for ISO approval, yet.	Part of the Eagle Rock and Mendocino Long Term Study
3	Paso Robles 70 kV Area	Templeton 230/70 kV transformer and Paso Robles-Templeton 70 kV line	Low voltages and load shedding	No Project	N/A	Construction of 2nd 70 kV line to Paso Robles was cancelled due to public opposition.
4	Salado 60 kV Area	Several 115 and 60 kV line outages overlapped with Stanislaus Co-gen out	Low voltages and thermal overloads	Various 60 and 115 kV line re-rates, evaluate need for voltage support	Planned in-service date is by May 2003	Load in this area is decreasing due to the TID Sale.
5	Atlantic 60 kV Area	Rio Bravo Rocklin generator outage	Thermal overload	Install 2nd Atlantic 230/60 kV Transformer	Pending ISO approval.	Long Term Studies are currently underway.
6	Davis 115 kV Substation	W. Sacramento - Davis 115 kV line outage, Brighton 230/115 kV transformer outage	Thermal overload	Brighton 230/115 kV transformer project and Vaca Dixon-Davis 115 kV conversion project	Brighton transformer May 2004 and conversion project 2006 or later.	
7	Mesa 115 kV Area	Mesa 230/115 kV transformer outages	Thermal overload	No Project	TBD	Overload can be mitigate by using 1-hr rating. PG&E's studying a longer term plan as part of 2003 expansion planning process.
8	San Francisco Area	Various generation curtailments	Generation decommissioning	Jefferson-Martin 230 kV Project, Hunters Point-Potrero 115 kV Cable Project and Potrero Static VAR Compensator	Sept 2005, May 2004 or later, Sept 2004, respectively	
9	Arco 70 kV Area	Arco 230/70 kV transformer outage	Low voltages and thermal overloads	Arco SPS	Operational	This project opens circuit breakers at Arco to radialize system and sheds load.
10	Ignacio 60 kV Area	Ignacio transformer outages	Thermal overload	Ignacio 115/ 60 kV transformer and Load Shedding scheme	Ignacio transformer May 2006. Load shedding scheme complete.	Load shedding scheme will remain in place after the addition of the new bank.
11	Watsonville 60 kV Substation	Green Valley - Watsonville 60 kV line outage	Low voltage	Install 60 kV Shunt Capacitors or convert area to 115 kV	TBD	Long Term Studies are currently underway to solidify plan.
12	Sonoma-Pueblo 115 kV Area	Lakeville - Sonoma or Sonoma-Pueblo 115 kV line outages	Low voltages	Build new 115 kV lines	May 2006 or later	Under Environmental Review
13	Stagg 60 kV Area	Stagg 230/60 kV transformer outages	Thermal overload	PG&E is reviewing various options for reinforcement.	TBD	PG&E is studying a longer term plan as part of the 2003 expansion planning process.

ATTACHMENT D
Expected Scope of Work

Expected Scope of Work

The following is a non-binding summary of the expected scope of work to be considered by the respondent in establishing the proposed fixed turnkey price.

Development Scope of Work

- Obtain site lease or purchase option including potential construction laydown and parking areas.
- Obtain necessary rights of way and easements for site access and for interconnections up to utility scope.
- Perform all necessary engineering for feasibility study, permitting and financing purposes.
- Perform geo-technical and Environmental Phase I and Phase II studies.
- Prepare, submit, support successful receipt of all environmental permits including CEQA (CEC or other jurisdiction).
- Prepare, submit, and support successful receipt of all CAISO metering, communications and other agreements.
- Prepare, submit, and support successful receipt of all electric, gas, water/wastewater interconnection agreements.
- Obtain preliminary commitments from fuel suppliers including terms, conditions, index pricing and other features.
- Prepare detailed Project Description.
- Obtain preliminary commitments from major equipment suppliers including performance guarantees, schedule, cost and long-term service.

Construction Scope of Work

- Arrange construction financing.
- Diligently perform all engineering, design, construction, testing and startup of the plant, including interconnection to all points of interconnection, all in accordance with Accepted Electrical Practices, the Project Description, all project agreements, permits and the project schedule, providing Authority with a complete Facility on or before the scheduled substantial completion date.
- Perform detailed design of the Facility consistent with the Project Description, including design review and comment by Authority on design.

- Design the Facility to meet site seismic conditions.
- Provide for fee ownership of the site or a site lease to the Authority for the useful life of the Facility.
- Procure all necessary equipment, supplies and services necessary to complete the project consistent with preferred suppliers list, the Project Description and the project schedule.
- Provide water supply and other required utilities to the Facility.
- Provide gas and transmission interconnections and coordinate design and construction of plant interconnections with those of the interconnecting utilities, and obtain approval from these utilities where necessary.
- Provide all necessary controls and communication links in accordance with Cal-ISO requirements and standard utility practices.
- Coordinate design and construction with federal, state and local regulatory agencies as required in the permits.
- Obtain all construction related permits including access, transportation, building permits, etc.
- Assure permit limits, water, gas and electric capabilities must support dispatch under Authority's agreement with Cal-ISO.
- Construct the Facility, including hiring of labor and subcontractors, performing construction management, scheduling, equipment receipt, installation, startup and testing per the Project Description and the project schedule.
- Establish procedures for Authority design review and supervision and review during construction period.
- Comply with Chapter 1 (commencing with Section 1720) of Part 7 of Division 2 of the Labor Code in constructing the Facility.

Exhibits

- Project Description
- Management Plan
- Site Description
    - Site information, location/routing/length of interconnects
    - Fuel Supply
- Performance Requirements

    - Guaranteed Cycle Performance
    - Availability
- Environmental Performance Requirements
    - Air Emissions
    - Water Intake/Discharge
    - Noise
- Operation and Maintenance Requirements
- Plant System Design Description
- Scope of Work
    - Responsibilities of Contractor
    - Responsibilities of the Authority
- Design Criteria
- Preferred Suppliers
- Detailed Requirements
    - Civil and Structural Systems
    - Mechanical Systems
    - Electrical and Control Systems
- Major Equipment Specifications
- Construction Specifications
- Quality Assurance Requirements
- Plant Startup, Acceptance and Guarantees
- Attachments
    - Terminal points
    - Fuel gas analysis
    - Raw water supply analysis
    - Geotechnical Investigation Report
    - Phase I and II Environmental Studies
    - Preferred Suppliers List

- Environmental Permits
- CEC Certification
- Air Quality Authority to Construct or Determination of Compliance
- County/City Conditional Use Permit
- Industrial Wastewater Discharge or NPDES Permit
- Storm water NPDES discharge permit
- Federal Title IV Acid Rain Permit
- Federal Title V Operating Permit
- Federal Fuel Use Act Certification
- Ground Water Rights Certification
- Oil Spill Contingency and Prevention/Response Plan
- Electrical Interconnection Agreement
- Gas Interconnection Agreement
- Water/Wastewater Interconnection Agreement
- Jobsite Legal Description
- Exclusions from Developer's Scope
- Construction Schedule
- Performance Tests, Guarantees and Liquidated Damages
- Insurance Requirements
- Letter of Credit Requirements
- Developer Form of Parent Guaranty